

Mr. Mason:

Your comments have been received and will be placed into the case file.

However, you should be aware that this is a pass-through of Columbia's cost of purchasing gas for delivery to its customers. Gas distribution companies are entitled to recover their wholesale costs on a dollar-for-dollar basis. This increase does not produce higher profits for Columbia. Wholesale costs, which were deregulated by the federal government more than 25 years ago, are driven by market conditions. The wholesale cost of natural gas has been rising for more than two years and that increase has steepened recently as supply has not kept pace with demand. Even before hurricanes Katrina and Rita, gas costs were going to be sharply higher this winter. The hurricane damage along the Gulf Coast, which is the source of most of the gas used in Kentucky, has simply made a bad situation worse. At present, most of the gas production and transportation facilities along the Gulf Coast are shut down. As supply is restored, prices are expected to come down. As with all such decreases, these would be reflected as decreases in gas costs passed on to consumers.

The PSC has no authority over wholesale prices. Companies seeking a wholesale cost adjustment are required to submit detailed cost information to the PSC. The filings are available on our Web site, psc.ky.gov. The case number is 2005-00403. Columbia's application for a wholesale cost adjustment will receive a careful review to ensure that it is proper and accurate.

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